

C Forecast of the Development of Macroeconomic Indicators

Sources of tables and graphs: CZSO, Eurostat

C.1 Economic Output

Latest development of GDP

Seasonally adjusted GDP fell by 0.3% (*versus 0.2%*) QoQ in Q3 2012. In YoY comparison, GDP² decreased by 1.6% (*versus 1.4%*).

Economic output declined QoQ for the third time in a row, and the economy was therefore in recession from the beginning of 2012. (The revision of GDP data altered the assessment of the last recession's duration. The CZSO refined the data on the QoQ change in GDP in Q4 2011 from a decline of 0.2% to stagnation, whereby the start of the recession was pushed on from mid-2011 to the beginning of 2012.) This development was also confirmed by QoQ declines in the gross value added (GVA).

Gross domestic expenditures declined YoY in Q3 2012 due to drop in household consumption by 2.4% (*versus 2.9%*) and in gross capital formation by 9.9% (*versus 2.6%*), with change in inventories reducing economic output by 1.8 p.p. – i.e. by more than was the overall decline in GDP. Government consumption increased slightly by 0.1% YoY (*versus 1.8% decline*).

When evaluating the mentioned deviations, it is necessary to take into consideration that quarterly national accounts were revised following the revision of annual national accounts published in September 2012. While the YoY decline in household consumption in Q2 2012 in the September edition of quarterly national accounts amounted to 3.5%, it reached 3.1% in the December issue. Gross capital formation with YoY decline of 6.5% in Q2 2012 according to the September data was revised to 1.4% in the December edition. This comes mainly as a result of a different view regarding the development of the gross fixed capital formation. As such it gives further evidence for considerable variability of the gross fixed capital formation time series.

The difference between our estimate for Q3 2012 gross capital formation and the data was caused by a strong YoY decline in inventories. Because of its construction, however, the “real-time” interpretation of a change in inventories and valuables is very difficult. Given the low state of confidence in further development, it can reflect economizing behaviour of the corporate sector. However, as additional information becomes available,

² Unless stated otherwise, data presented in the text are not adjusted seasonally and for work days.

this item might be subject to considerable revisions in the following publications of quarterly accounts³.

Exports grew by 4.0% (*versus 3.6%*) YoY in Q3 2012 and imports increased by 0.7% (*versus 2.1%*) YoY. A positive impact of foreign trade on GDP development was thus higher, as compared to the estimate in the last forecast. The reason might have been stronger than expected negative impact of very weak domestic demand on export dynamics.

Foreign trade contributed positively to GDP growth despite further deterioration in the terms of trade, which was reflected in YoY decline in real gross domestic income (RGDI) by 2.0% (*versus 2.3%*). As compared to gross domestic product, YoY decline in RGDI was deeper.

Nominal GDP decreased YoY in Q3 2012, by 0.7% (*versus 0.2%*), while the main cause of this deviation was a considerably higher YoY decline in inventory increments in nominal terms of CZK 20 billion, which decreased the nominal GDP by 2.1 p.p. Thus in nominal terms, the change in inventories was a dominant factor in the GDP decline.

With regard to the income structure of GDP in Q3 2012, compensation to employees increased by 0.9% (*versus 1.6%*) and the gross operating surplus dropped by 3.4% (*versus 2.1%*). The development was qualitatively in line with the forecast, nevertheless the balance of taxes and subsidies recorded considerably higher dynamics with a growth of 5.8% (*versus 1.3%*).

Forecast for GDP

The forecast for GDP and its expenditure components is influenced qualitatively by the same key risk factors as in the October Forecast, however we consider the uncertainty resulting from the debt crisis of some European economies to be somewhat lower.

We assume that the Czech economy stagnated in Q4 2012 in QoQ terms. For 2012 as a whole, GDP decreased by 1.1% (*versus 1.0%*). For 2013 we forecast GDP stagnation, eventually slight growth of 0.1% (*versus 0.7%*). For 2014 we expect GDP to grow by 1.4%. We are lowering our growth forecast for 2013 due to both higher decrease in gross domestic expenditures and lower contribution of the foreign

³ For example, a change in inventory for Q2 2012 was made more accurate upwards to an extent exceeding 1% of quarterly GDP.

trade balance to GDP growth with respect to clearly weaker growth (also demand) prospects for the euro zone. We assume that household consumption will decrease by 0.7% (*versus 0.5%*) this year.

We believe that the decline in household consumption in 2012 was caused by both the negative development of households' real disposable income and by the observed growth of the savings rate. We are lowering our forecast for 2013 mainly with regard to a decrease in dynamics of real compensations to employees (and also the real average gross wage). We also expect to see further YoY pick up of the savings rate in the segment of households with relatively higher incomes. Concerning external sources of consumption financing, in 2012 we observed very low dynamics in consumer loan growth. In principle we also expect to see similar behaviour of households and banks in 2013. While we believe that for companies (see below) the main cause of low dynamics of is a weak demand for loans, for households the situation is less obvious. We can also probably anticipate a limited offer of loans from banks, mainly in a segment with relatively lower incomes. We expect household consumption to increase by 0.9% in 2014, particularly due to recovery of disposable income. That will be supported by the economy's better overall condition, as compared to 2013.

We estimate that government consumption decreased by 0.9% (*versus 1.1%*) in 2012. In line with the fiscal consolidation strategy, we expect to see a real decline in government consumption by 1.0% in 2013 (*versus 1.3%*) and further 0.9% drop in 2014.

With weak domestic demand, uncertainty around foreign demand prospects and existing utilization of production capacities, the need of companies to invest in physical capital are considerably limited. Low dynamics of internal sources of financing of investment

projects and poor contribution of governmental investment due to the already mentioned fiscal consolidation can be regarded as another reason for weak investment activity. Growth of external sources of financing (loans) is rather limited, mainly – in our view – because of low demand of companies for loans to finance investment projects. We estimate that gross capital formation in 2012 decreased in real terms by 3.3% (*versus 4.1%*) with a drop in the gross fixed capital formation of 0.8% (*versus 0.6%*). For 2013 we anticipate practical stagnation, eventually a slight growth of 0.1% in gross capital formation (*versus growth of 0.9%*) and gross fixed capital formation (*versus growth of 0.3%*). In 2014, gross capital formation could increase by 3.2% and gross fixed capital formation by 1.3%. Considering the structure of investment, we expect negative development, especially in building investments.

A negative contribution of gross domestic expenditures to the GDP growth should be, similarly to 2012, mitigated this year by the positive contribution of foreign trade. For 2013 we anticipate growth of 3.0% (*versus 3.5%*) in exports and imports to pick up by 2.3% (*versus 2.5%*). A lower resulting positive contribution of foreign trade to the GDP growth in 2013 results mainly from deterioration of the prospects of foreign demand for domestic production.

We expect modification of the GDP growth structure in 2014, in the sense that the positive contribution of gross domestic expenditures due to recovery of household consumption and investment will be higher than the positive contribution of net exports.

We estimate that the nominal GDP in 2012 stagnated (*versus growth of 0.3%*). For 2013 we predict the nominal GDP to grow by 0.6% (*versus 1.6%*), for 2014 by 2.0%.

C.2 Prices

Consumer prices

The **average inflation rate in 2012** amounted to 3.3% (*consistent with the forecast*).

YoY growth of consumer prices reached 2.4% (*versus 2.6%*) in December 2012 and was nearly exclusively made up by the administrative measures contributing 2.2 p.p., of which the impact of changes in indirect taxes accounted for 1.2 p.p. and the influence of changes in regulated prices accounted for 1.0 p.p. With respect to contributions of individual segments of the consumer basket to the YoY inflation, housing (1.0 p.p.)

and food and non-alcoholic beverages (0.8 p.p.) continued to contribute most in December.

In line with the previous forecast, Q4 2012 brought about slowdown in YoY inflation. The prices of food and non-alcoholic beverages increased, on the contrary, the prices of fuels decreased from their historical peaks in September.

In spite of an increase in both VAT rates, **the year 2013** should be characterized by slight inflation. Neither oil prices nor exchange rate development will have a considerable impact on its dynamics (see Chapters A.1 and A.4). The main anti-inflation factors will be weak

domestic demand, the Czech economy position in the negative output gap and the labour market situation.

Right at the beginning of 2013, most administrative measures will affect the CPI. In addition to an increase in both VAT rates by 1.0 p.p. to 15% and 21% (contribution of 0.7 p.p.), the growth of certain regulated prices must be considered. For example, it refers to an increase in prices for heat, electricity, water and sewer rates in total (contributions of 0.1 p.p. each) or an increase in administrative fees. Uncertainty is associated with changes in prices for solid waste collection. In the course of 2013, an increase in the consumer tax on cigarettes should be gradually reflected in CPI (contribution of 0.1 p.p.). Similar to 2012, administrative measures will contribute approximately three quarters of the inflationary effect in 2013, as such they should contribute 1.7 p.p. (*versus 1.6 p.p.*) to YoY growth of consumer prices in December 2013.

YoY inflation should be slowed down further in Q1 2013, as compared to Q4 2012. The **average inflation rate in 2013** should reach 2.1% (*unchanged*) with a YoY growth in December of 2.3% (*unchanged*). In spite of the fact that the situation on the world food commodities markets calmed down as compared to the summer months of 2012, we continue in including food prices – especially with regard to the development of domestic prices of agricultural producers – on the of anti-inflation risks side of the forecast.

Last year, the long lasting process of rent deregulation was completed. This will be shown from the beginning of 2013 by a decrease in fixed weight of regulated prices in the consumer basket from 18.7% to 17.5%.

In 2014, inflation should already be swayed by administrative measures to a lesser extent. Similarly to 2013, another increase in the consumer tax on cigarettes should contribute to inflation with 0.1 p.p. We expect the average inflation rate to reach 1.8% in 2014 with a YoY growth of consumer prices at 2.1% in December.

Even in spite of slightly increased inflation in 2012 and very loose monetary policy, we consider inflation expectations to be stabilized.

Deflators

The **gross domestic expenditure (GDE) deflator**, which is a comprehensive indicator of domestic inflation, grew by 1.3% (*versus 2.0%*) YoY in Q3 2012. The rise was caused mainly by other than the forecast development of the household consumption deflator, which grew in Q3 2012 only by 1.8% (*versus 3.3%*) YoY, i.e. substantially less than the level of inflation according to CPI. At the same time, this figure was made more accurate, for example for Q2 2012 from 3.4% to 2.0%. As revealed by the revised data from the quarterly national accounts of December 2012, it is likely that it refers to a more permanent loss of the so far relatively clear link between relative changes in the household consumer deflator on one hand and relative changes in CPI on the other. We assume that it is a consequence of applying a more detailed data base in estimating the household consumer deflator in annual national accounts (the impact of this step could be seen for the first time in September 2012 with the publishing of annual national accounts) which is also now taken into consideration in the quarterly national accounts. In the outlook, we anticipate convergence of both indicators.

We expect the GDE deflator to grow by 1.4% (*versus 2.2%*) in 2012. For 2013 we forecast deflator growth by 1.0% (*versus 1.8%*).

The value of the **implicit GDP deflator** increased by 0.9% (*versus 1.2%*) YoY in Q3 2012. A higher growth of the gross domestic expenditure deflator compared to a growth of the implicit GDP deflator in Q3 2012 relates to a worsening of terms of trade by 0.6% (*versus 1.2%*). Once again this deviation was caused by a change of the data base. A YoY decline in terms of trade for Q2 2012 was revised for goods from 1.2% to 0.7%, for services from a decline of 2.2% to a growth of 1.0%.

In 2012 we assume that the GDP deflator grew by 1.1% (*versus 1.3%*) and in 2013 we forecast its growth at 0.5% (*versus 0.9%*).

C.3 Labour Market

The data for the first three quarters of 2012 and data available for Q4 indicate considerable impact of the economic recession on the labour market; which has thus far to a large extent resisted its consequences. Seasonally adjusted unemployment is increasing, but employment, thanks to its growth, at the first sight defies other indicators. The price for the increase of employment, however, was a decline in the working hours fund, productivity and a further real decrease in wages.

Employment

According to the Labour Force Survey (LFS⁴), **employment** surprisingly grew by 0.5% (*versus 0.0%*) YoY in Q3 2012, and by 0.4% QoQ after the seasonal adjustment. The increase was recorded in primary and tertiary sectors, while the secondary sector essentially stagnated.

Contrary to the previous two quarters, not only a YoY increase in the number of entrepreneurs without any employees was ascertained, but also an increase in employees of 0.3% (*versus decline of 0.8%*). Under the conditions of recession, this change in behaviour on the supply and demand sides can be explained by the continuing efforts of viable enterprises to maintain the highest number of high-quality employees as long as possible as well as by increased preference of employees for securing at least minimal work-related incomes. This can be further evidenced by another decrease in the number of hours worked per employee (according to national accounts by 3.7% YoY).

A still increasing number of formally self-employed persons most likely leads to the extension of the “false self-employment” which is fiscally unfavourable for the state budget.

Beside to the results from the first three quarters, the reason for improving our forecast for employment growth in 2012 to 0.4% (*versus 0.0%*) is also the expectation for continuing growth of self-employment and the above-described change in behaviour on both sides of the labour market. This should lead to a further decline in the number of worked hours and an increase in the share of part-time work. Based on this assumption, we are also changing the forecast of employment. We expect employment to stagnate (*versus decline of 0.2%*) in 2013 and also in 2014.

⁴ The data from LFS is provided in the text, graphs and tables after 2011 in a row after recalculation to 2011 census.

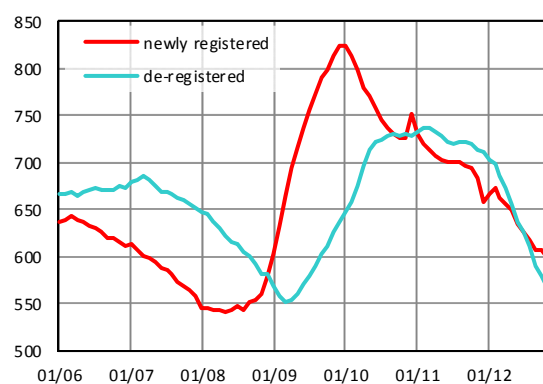
The **employment rate** (ages 15–64) increased in Q3 2012 YoY by 0.9 p.p. to 67.1%, thus continuing in its strong growth. This growth was caused both by a decrease in the potential work force and higher working activity, especially of individuals over the age of 45 years.

The **economic activity rate** (aged 15–64) grew YoY by 1.3 p.p. to 72.1% in Q3 2012, thus reaching its highest level since 1999. This result points out the increased interest of the population, in light of the worsening economic situation of households, to engage in work as a consequence of a need to compensate for current or anticipated losses in terms of real disposable income. Reasons for the constantly growing rate of economic activity are specified in Box C.3.

Unemployment

The tendency towards unemployment growth lasting since May 2012 was confirmed unambiguously by seasonally adjusted registered unemployment in Q4 2012. An interesting view is provided by flows of unemployed persons. In spite of the recession lasting over a year now, a decrease in the number of newly registered unemployed persons, which has already reached the 2007 level, when the economy grew by 6%, continues. On the contrary, unemployment growth is caused by a decline in the number of placed job applicants which has nearly reached its minimum from the recession in 2009. An unavoidable consequence of this situation is the extension of the average period of unemployment to values which are record-breaking in terms of the history of the modern market economy in the Czech Republic.

Graph C.3.1: **Flows in Registered Unemployment**
12month moving sums, thousands of persons



At the same time, the rise in the share of available and partially working job applicants supports increased efforts of the unemployed to actively find solutions to their problems. However, the increase in registered

unemployment is caused by a sharp decline in the creation of new jobs and apparently also by limited capacities of employment agencies in looking after the unemployed. We assume that the cancellation of non-paid public service by the Constitutional Court will also lead to additional pressure on increasing registered unemployment.

The **unemployment rate** according to LFS (aged 15+) reached 7.0% (*consistent with the forecast*) in Q3 2012, which represents a YoY increase of 0.4 p.p.

In line with the previous forecast, we expect that the economic decline of 2012 will show itself in a YoY increase of unemployment only with a delay. In 2013, unemployment rate may increase to 7.3% (*unchanged*); in 2014, it may go slightly up to 7.4%, as a result of only moderate economic growth.

Wages

Slowdown in wage bill growth and the average wage growth basically corresponded with the situation of prolonged economic recession and the shift of preferences of both employers and employees towards maintaining employment.

When converting to full-time work equivalents, the nominal **average wage** (in enterprises) increased by 1.4% (*versus 2.3%*) in Q3 2012 to CZK 24,514. However, its growth further differentiated, both in terms of sectors and its amount – higher increases were mostly found in sectors with high wages (information and communication activities, finance and

insurance sector) as well as in the sectors with a selective wage increase (education, health care). High management bonuses also contributed to an increase in the so defined average wage; approx. 2/3 of employees in the file of company survey fall below this wage.

As a consequence of reducing working hours due to lack of orders, continuing “wage optimization” by increasing the share of self-employed persons and stagnation of salaries in the public sector, we expect to see a moderate increase to the average nominal wage by 2.2% in 2012 (*versus 2.4%*) and by 2.0% in 2013 (*versus 2.5%*). We estimate that in 2012 there was a real decrease in the overall average wage by 1.1% (*versus 0.9%*), for 2013 we anticipate seeing a slight decrease of 0.1% (*versus growth of 0.4%*). Under the condition of economic recovery and partial compensation for an increase in the health insurance rate paid by employees carried out by the employers, for 2014 we anticipate growth of the average nominal wage at 3.6%.

In Q3 2012, **the wage bill** (national accounts, domestic concept) increased by 0.6% YoY (*versus 1.6%*), with wage bill growth in manufacturing (the most important sector in terms of volume) amounting to 1.5%.

We estimate that the wage bill increased by 1.7% (*versus 2.0%*) in 2012. As a consequence of bleaker economic outlook and the assumption of slower wage growth with employment stagnation, we are lowering our forecast for 2013 to 1.9% (*versus 2.1%*).

Box C.3: Why does the participation rate grow so much in the Czech Republic?

The share of the economically active (the sum of all employed and unemployed individuals) in the working-age population – i.e. the rate of economic activity or participation rate – has been increasing continuously since Q1 2009. Traditional approaches of economic theory assume that in the period of economic crisis the participation rate should decrease due to the fact that a part of the labour force becomes inactive. Such an assumption has been confirmed by many empirical studies. Classical channels can be the decision of unemployed individuals to stop seeking work actively, whereby they will not fulfil the definition of unemployment any more and will become “discouraged”; women on maternity leave can have fewer chances of finding a new job or returning to their original work and will extend the period allocated for childcare; young people may decide to continue with their studies, on the contrary, older people may retire earlier.

Therefore, the question is why the participation rate of the age group 15–64 increased in the Czech Republic from 69.6% in Q1 2009 to 72.1% in Q3 2012, in spite of the “first” recession at the turn of 2008 and 2009 and the “second” recession during the last year. One of possible theoretical explanations is the so-called added worker effect, whereby households are trying to compensate for their unfavourable financial situation through increased labour supply. Let us use as an example the situation when one of the spouses becomes unemployed and the other subsequently shortens or terminates maternity leave and either actively seeks a job or finds one. In both cases, therefore, he or she fulfils the definition of an economically active person.

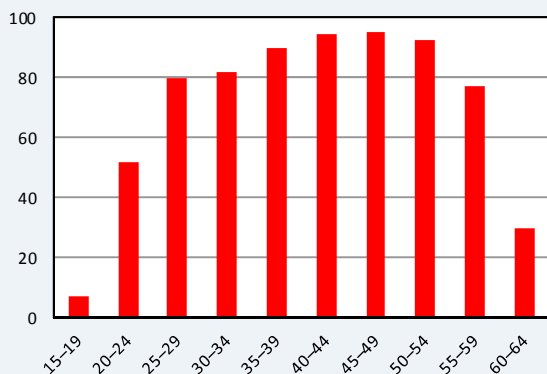
In addition, specific structural and demographical factors play a role in the case of the Czech Republic. We will try to describe them in detail in the following sections. Graph 1 shows the participation rates by five-year wide age groups. The reverse U-shape is typical for most developed countries. The main reason for low participation at both tails of the graph includes studies or old-age pension.

This picture can also help to illustrate the potential impact of changes in age structure which are important for a detailed assessment of participation developments. In several recent years, for example, the share of the 40–44 year population has been increasing, i.e. at the age with naturally a very high participation rate: these individuals have already finished their studies or have grown-up children and at the same time the number of early pensioners still reaches low values here. At the same time, however, the share of the 60–64 population range is also increasing in the Czech Republic where the participation rate is naturally low. As such, there are several contradictory tendencies.

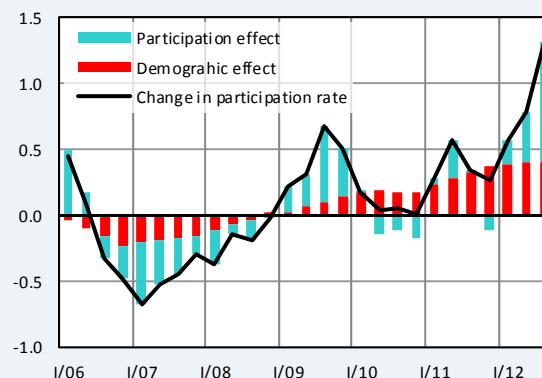
The total impact of the change in the demographic structure on the change of participation rate may be quantified based on the identity below. A_t is the number of active inhabitants ages 15–64, P_t is the total number of inhabitants ages 15–64, index i represents individual five-year age groups, w_i is the share of the number of inhabitants of the given age group in the population ages 15–64. A YoY change in the participation rate can therefore be decomposed into the demographic effect, for which the participation rates of age groups are fixed and the demographic structure is the only change, and the “participation effect”, where – on the contrary – the age group is constant and the individual participation rates change.

$$\frac{A_t}{P_t} - \frac{A_{t-4}}{P_{t-4}} = \underbrace{\sum_{i=1}^{10} (w_{i,t} - w_{i,t-4}) \frac{A_{i,t}}{P_{i,t}}}_{\text{demographic effect}} + \underbrace{\sum_{i=1}^{10} w_{i,t-4} \left(\frac{A_{i,t}}{P_{i,t}} - \frac{A_{i,t-4}}{P_{i,t-4}} \right)}_{\text{participation effect}}, \text{ where } w_{i,t} = \frac{P_{i,t}}{P_t}$$

Graf 1: Participation rate in the CR by age groups in %, data for Q3 2012



Graf 2: Decomposition of participation rate changes participation rate 15–64, in p.p.



Graph 2 presents the results of this decomposition. It is apparent that changes in the demographic structure have already been acting favourably since 2009 for the total indicator of change in the participation rate of individuals aged 15–64 years. Even if the participation rates of individual age groups remain constant, a YoY change in the demographic structure resulted in a YoY increase in the 15–64 participation rate in Q3 2012 of ca 0.4 p.p.

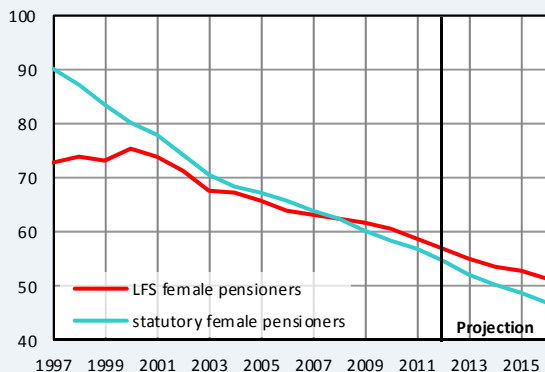
If we move away from these demographic impacts and choose to only analyse the “participation effect”, it is apparent from Graph 2 that this indicator has been behaving anti-cyclically since 2006. At present, we perceive as one of the most probable explanations of this phenomenon to be the already described efforts of households to compensate for decreasing real incomes by higher involvement on the labour market. The cautious microeconomic behaviour of households which is apparent on several relevant indicators, especially on an increase in the savings rate .

In addition to short-term issues, a number of structural aspects in a longer term also play an important role with respect to the total participation rate. The most important of them is increasing the statutory retirement age which also has a considerable impact on the real retirement age. Graph 3 illustrates this development in women ages 55–64. It is apparent that a decreasing share of statutory female pensioners in this age group is reflected by a decreasing share of non-active women according to the LFS on account of/by virtue of old-age or disability pensions. As the share of statutory female pensioners according to the valid legislation will continue to decrease in the following years, similar

development can also be expected according to the LFS, i.e. also “in reality”. Very similar relationship can also be observed in the male population.

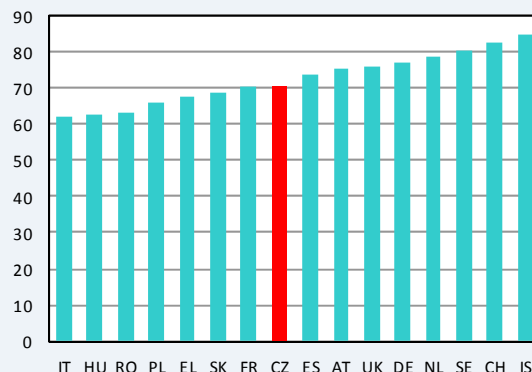
Graph 3: Female pensioners aged 55–64

share on female population aged 55–64, in %



Graph 4: Participation rate 15–64 in selected states

in %, data for 2011



We can carry out a similar projection for all reasons of non-activity. In total, eight of them have been recorded within LFS; in addition to old-age and disability pensioners, also education, care of family members, etc. After carrying out the projection according to age groups and both sexes, structural changes could result in an increase to the participation rate for the group of 15–64 years up to 73.5% in 2016. As part of this development, one dominant factor is merely the increase in the participation rate from the 55–64 age category.

This value would represent the historically highest level of the participation rate in the Czech Republic. In the European context, however, it would not be exceptional – the Czech Republic would get approximately to the level of Spain in 2011. Contrary to the European countries with the highest participation rate, the Czech Republic still has considerable “reserves”, especially in the 60–64 years age group, and further in women aged 25–35, traditionally due to taking longer parental leave.

C.4 External Relations

(a balance of payments perspective)

In Q3 2012, the external imbalance, expressed as the ratio of the current account balance to GDP, reached -1.7% (*versus* -1.4%) on an annual basis, and thus improved YoY by 1.6 p.p. The improvement was due to the results of the trade balance (improvement of 1.8 p.p.) and the income balance (improvement of 0.8 p.p.). The remaining current account items slightly deteriorated; the balance of services by 0.4 p.p. and the balance of transfers by 0.5 p.p.

After a strong growth of export markets⁵ in 2010 and 2011 (by 11.5% or 7.2%, respectively), the dynamics slowed down in 2012 in connection with a decline in world trade to the estimated 1.3% (*versus* 1.9%). We also anticipate poor growth of export markets in 2013 amounting to 1.5% (*versus* 2.4%). For 2014 we anticipate a slight recovery of the world economy, accompanied by the growth of export markets of 2.8%. We also expect slowdown in the export performance growth indicating a change in the share of the volume of Czech goods on foreign markets, from the estimated 3.4% (*versus* 2.6%) in 2012 to 1.4% (*versus* 0.8%) in 2013 and 1.0% in 2014.

In spite of a considerable decline in external demand, Czech foreign trade has been achieving good results. However, the dynamics of export and import growth have been gradually decreasing. In Q3 2012, while exports (moving sums of the last four quarters) went up by 8.0%, imports grew only by 5.2%. Therefore, with export growth outpacing the growth of imports, trade balance surplus increased. A less-than-average growth of exports to EU countries of 5.5% was partially compensated by strong export growth to the countries of the Commonwealth of Independent States⁶ (by 41.2%) and developing countries (by 14.8%). In 2013 and partially also in 2014, we expect strengthening impacts of unfavourable development of the external environment and further slowdown in the growth rates for trade. We estimate that in 2012 the trade balance surplus reached 3.9% of GDP (*unchanged*); for the following two years, thanks to the fact that exports were slightly ahead of imports, we anticipate an increase in the trade balance surplus to 4.4% (*versus* 4.1%) and 4.7% of GDP.

⁵ *Weighted average of the growth of goods imports by the seven most important trade partner countries (Germany, Slovakia, Poland, Austria, France, the United Kingdom, and Italy).*

⁶ *The organization including 9 out of 15 former union republics of the Soviet Union (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldavia, Russia, Tajikistan, and Uzbekistan).*

In annual terms, the fuels balance deficit (SITC 3) reached 4.8% of GDP (*versus* 4.9%) in Q3 2012. We estimate that for the whole of 2012 the deficit reached 4.9% of GDP (*versus* 5.0%). considering the oil price scenario we expect to see prices of raw materials decreasing in the course of 2013 and 2014, meaning the fuel balance deficit will go down. It could decrease to 4.6% of GDP (*versus* 5.0%) in 2013 and further to 4.2% of GDP in 2014.

The balance of the services surplus in Q3 2012 dropped in annual terms by 0.4 p.p. YoY to 1.4% of GDP (*unchanged*). In spite of a growing active balance on transportation services and tourism balance since the end of 2011, the total surplus of the balance of services has been decreasing in connection with a strongly increasing deficit on the balance of so-called other services. It especially concerned an increase in the importing of services in research and development, securing, intermediation of trade and services for businesses with foreign participation within the group. We estimate that in 2012 the services balance reached 1.3% of GDP (*versus* 1.2%). For 2013 and 2014 we expect to see a further slight decline in a surplus in the balance of services to ca 1.0% of GDP (*versus* 1.2%) and 0.8% of GDP.

The deficit in the income balance, which includes the reinvested and repatriated profits of foreign investors, had shown an improving tendency since mid-2011. With a considerable increase to the outflow of investment gains in the form of dividends paid out to foreign owners of domestic direct investment, however, in Q3 2012 the deficit deepened again. We estimate that for the whole 2012 the balance of services showed a deficit of 6.6% of GDP (*versus* 6.4%). In spite of improvement in the balance between wage incomes of Czech employees abroad and wage expenditures on foreign employees employed in the Czech Republic, we rather expect to see a slight increase in the income balance deficit, which we estimate at 6.8% of GDP (*versus* 6.5%) for this year and at 6.9% of GDP for 2014.

Under the given circumstances we assume that there will be further improvement in the current account balance in 2013, to -1.3% of GDP (*versus* -1.2%). The forecast for 2014 is -1.2% of GDP. A current account deficit at this level poses no risks of macroeconomic imbalances.

C.5 International Comparisons

Comparisons for the period up to and including 2011 are based on Eurostat statistics. Since 2012, our own calculations have been used on the basis of real exchange rates.

Using the purchasing power parity method, comparisons of economic output for individual countries within the EU are made in PPS (purchasing power standards). PPS is an artificial currency unit expressing a quantity of goods that can be bought on average for one euro on EU27 territory after converting the exchange rate for countries using currency units other than the euro. Using updated Eurostat data, the purchasing power parity of the Czech Republic in 2011 was CZK 18.09/PPS compared to the EU27 or CZK 17.23/EUR compared to the EA12.

In 2009, as a result of deep recession, the level of GDP per capita adjusted by **current purchasing power parity** declined in all monitored countries, with the exception of Poland. While most states gradually recovered from the crisis, the absolute economic level has already continued to fall for the fifth year in a row in Greece. A slight decrease also occurred in Portugal in 2011 and 2012 and in Slovenia in 2012. In addition to the decrease in the absolute level, the relative economic level vis-à-vis the EA12 also declined in all aforementioned countries. The biggest decline has been observed in Greece where the total decrease in 2009–2012 reached 16 p.p. On the contrary, the economic level is increasing most quickly, compared to the average of the EA12 countries, in the Baltic states. However, after 2011 the speed of their real convergence slowed down considerably.

In the Czech Republic, the economic level of GDP per capita as adjusted to current purchasing power parity was approximately 20,300 PPS in 2012, corresponding to 74% of economic output in the EA12. After a period of convergence when in 2000–2007 the relative economic level of the Czech Republic, compared to the

EA12 countries, increased by 13 p.p., either stagnation or just a very slight growth of the relative economic level has been apparent since 2010. Nevertheless, in 2011 it surpassed the economic level of Greece and once again also that of Portugal.

An alternative way of calculating GDP per capita by means of the current **exchange rate** takes into account the market valuation of the currency and the ensuing differences in price levels. In the case of the Czech Republic, this indicator was approx. EUR 14,600 in 2012, i.e. approximately half the level of the EA12. Due to the expected growth of real GDP, which should exceed growth in the EA12 countries, and slight appreciation of the koruna, we expect to see a gradual slight increase in both absolute and relative levels.

Looking at price levels, the **comparative price level of GDP** in the Czech Republic decreased by 2 p.p. in 2012, thus reaching 68% of the EA12 average. The expected stagnation of the price level in 2013 and 2014 should help maintain competitiveness of the Czech economy.